

GROUP INSURANCE

Group Life Insurance

- A. What principles and methods have been followed in determining the amounts of insurance to be made available to small group life cases? What problems, underwriting and otherwise, are involved in the evaluation of small group cases?
- B. What are the important objectives to be kept in mind in designing group insurance dividend formulas or experience rating formulas? What methods have been used in fixing the insurance loss level, or other factors determining how claims are pooled, for:
1. Small group life policies?
 2. Large group life policies?
 3. Group life policies with large individual maximums?

When policies pooled for experience rating purposes are transferred to the category of policies which depend upon their own experience, how is the movement handled in actual practice?

MR. DONALD D. CODY: We have found at New York Life that many of the factors affecting loss ratios on group life insurance have a greater impact on smaller groups. Among these might be included anti-selection, the average age of the group (because the margins in the mortality tables and premium rates that we use vary substantially with age), and the industry of the group. Because there is no attempt to make a careful classification at issue, equity between groups with variations in these characteristics is generally achieved by re-rating. Fortunately, group life insurance has been a fairly stable coverage, and the problem of increasing premium rates is rarely encountered. Reductions in premium rates in the second and later policy years are often justified on the basis of lower rates to take the cases off the market. Actually, a more considered reason is that, when initial expenditures are finished, you can afford to keep the case at slightly lower rates.

The degree of experience rating is generally lower for renewal premium rates than for dividends, because the former is trying to forecast the future, whereas the latter is a historical study. In addition, less weight should be given to actual experience in dividend determinations when the level of premium rates is low or when there is a greater chance of wide fluctuation (e.g., when large individual amounts of insurance may be provided). Furthermore, when large amounts of insurance are available, rapid reductions in premium rates should be avoided because of the increased likelihood of deficiencies.

Whatever the mechanism by which cases with large individual amounts of insurance are treated in the dividend or refund formula, it is important to recognize the poor mortality on some cases due to anti-selection in order to avoid polluting the "pool" of average cases. That is why I personally do not favor completely reinsured or pooled excess amounts.

In closing, I would like to point out that most companies determine the degree of experience rating by a continuous formula grading from the smallest to the largest cases, so that the question of movement from one class to another does not arise in practice.

MR. PHILLIP BRIGGS: In writing group life insurance on small groups, it is important to minimize anti-selection and to design the dividend formula to protect the policyholder from "catastrophic" fluctuations. This latter step can be accomplished by giving less credibility to the group's own experience.

The Metropolitan will write up to \$10,000 of insurance on groups of three to ten lives with statements of health on all individuals to be insured. For groups of ten to twenty-four lives, we offer schedules up to \$20,000 with statements of health on new entrants after issue but not on initial insureds and a mercantile report on the group at issue. We have recently introduced a specially designed plan which permits us to offer schedules up to \$40,000 for groups of twenty-five lives or more, subject to the following requirements: (a) substantial standardization of plan administration and rate structure; (b) high degree of pooling in the determination of dividends; (c) schedule directly related to salary; (d) tight actively-at-work provision requiring full-time active work for at least thirty hours a week in the three weeks prior to becoming eligible; (e) 50 per cent reduction at the earlier of retirement or attainment of age 65 (70).

While experience on this plan has been limited, our experience with a similar plan issued in the past has been quite satisfactory.

MR. IVAN R. TAYLOR: For groups of ten to twenty-four lives, we at the London Life Insurance Company will offer schedule maximums of \$10,000 on a salary schedule or \$5,000 on an occupational or position schedule. In either case we require a statement from the employer that none of the employees has been absent for more than a week in the past year for an illness from which he has not recovered. For a \$10,000 maximum, we also require a statement from the executives to the effect that none of them has been absent from work during the past three months for a period in excess of one week. If, as a result of these statements, further evidence seems advisable, we request it freely.

We will provide scheduled amounts up to a grand total of \$50,000, with

the excess over the amount indicated above on individual evidence paralleling that of an ordinary policy required for the same amount of insurance. The excess must be on the salary basis, and the total insurance on an individual may not exceed two times earnings.

Our experience rating formula allows some credibility for the group's own experience for a group of even minimum size. Our credibility approach influences both the dividend declared for the year just passed and the premium levels for the year then beginning. It is our belief that, if a group does develop early claims experience, then it is possible that it belongs in some substandard category, and we accept the degree of substandardness as indicated by our credibility.

Our credibility formula is continuous. Consequently, there is no one single point at which a group becomes transferred from the category of nonpooled to pooled.

MRS. ANNA M. RAPPAPORT: Our practice at Standard Security Life is to issue relatively low amounts on a group-underwritten basis, with amounts over that limit on an individually underwritten basis. In order to maintain balance in the schedule and to preclude amounts which are discriminatory and may lead to anti-selection, we have adapted the Internal Revenue Service rules for integration of pensions with Social Security to the group life situation. We assume that the life insurance benefits under Social Security are equivalent to \$25,000. Then, considering all benefits provided by all carriers, the sum of our benefits plus \$25,000 should not be a higher multiple of salary for any class than it is for the lowest salary class.

MISS JOSEPHINE W. BEERS: We have found the following underwriting requirements particularly important to small groups: (a) a legal group; (b) a full-time bookkeeper or other organizational operation which will enable the policyholder to pay premiums on time and accurately; and (c) eligibility restricted to full-time employees not working at home.

In our re-rating formula there are three classes: the smallest cases are completely pooled; medium-sized cases are partially pooled, in that the available surplus—after claims and expenses on all cases have been deducted—is returned to the policyholders in proportion to their own experience; the largest cases are individually rated. When a case grows from the medium-sized to the largest category, records as to past experience are maintained as the basis for adjusting rates, but deficits charge against the pool are not carried forward as a lien against future refunds to the policyholder.

MR. THEODORE J. KOWALCHUK: The revised experience rating formula recently adopted at United States Life for groups with twenty-five or more lives had the following objectives:

- a)* Retain a greater proportion of surplus before refunds by charging weighted claims rather than actual claims on small groups.
- b)* Maintain a good competitive position by a lower risk charge for small groups and by giving 100 per cent credibility to large groups.
- c)* Co-ordinate experience refunds and renewal re-rating, which, for the most part, will be performed simultaneously.
- d)* Keep the formulas as simple as possible.

MR. ROBERT C. TOOKEY: There is an interrelationship in re-rating formulas among the risk charge, the credibility factor, and the extent to which losses are to be carried forward. Although a complete analytical approach is very difficult, modern techniques and electronic equipment can help the actuary tailor-make the experience rating formula for the particular group.

The second point I wish to make is that the practical applications of theoretical experience rating formulas must be tempered by judgment, flexibility, and timing.